Brexit vote and its implications on Market Access' internationalization strategy

by

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Biographic note

Tereza Krátká was born in Opava, Czech Republic, on the 15 June 1993. After graduating from the 1st International School of Ostrava—an English-Czech bilingual high school, she went to study her Bachelor degree in Economics and Management at the Institute of Economics and Management of Nantes (IEMN-IAE), in France. She spent one semester at University of Hasselt, Belgium within the Erasmus+ exchange program, and concluded her Bachelor degree in June 2015. Intrigued to increase her knowledge in the area of economics, she entered Master in Economics program at the Faculty of Economics of Porto (FEP).

In the period between September 2016 and February 2017, she developed a curricular internship at Market Access, a consultancy firm specialised in international business, which resulted in this report.

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Abstract

This report is the product of the 6-month curricular internship at Market Access, a Portuguese international business consultancy firm. Following success in the national market, Market Access has started in 2015 a strategic partnership with UK-based Cormack Consultancy Group, as a form of international expansion, started. In June 2016, the unexpected result of the Brexit referendum in the UK brought concerns regarding this partnership.

The report aims to offer strategy recommendations for Market Access regarding its Scottish-based partner Cormack Consultancy Group given the recent events. The question of Brexit is discussed with the use of testimonials of leading European economists, government institutions, and official statements of UK and EU representatives. Three scenarios of post-Brexit UK-EU trade relations are described and analysed in macroeconomic perspective and in the view of Market Access – Cormack Consultancy Group partnership.

As the partnership is not fully developed and established, and both firms are young, growing, and flexible, the general medium term strategy recommendation for Market Access is to remain flexible and be ready to adapt their services. A strategy applicable for the period before the conclusion of Brexit negotiations is suggested, and so are recommendations specific for each scenario following Brexit.

This report clarifies some of the uncertainties that arose as a result of the Brexit vote and offers strategy guidance - based on structured and systematic analysis - to Market Access.

JEL-codes: F15, F23, M16

Key-words: Economic integration, Brexit, European Union, Internationalization, Internationalization strategy, Market Access

Resumo

Este relatório é o produto final decorrente de 6 meses de estágio curricular junto da empresa Market Access, uma firma portuguesa de consultoria internacional de negócios. Market Access é bem-sucedida no mercado nacional e, com o objetivo de se expandir internacionalmente, formou em 2015 uma parceria estratégica com a Cormack Consultancy Group, empresa sediada no Reino Unido. Em Junho de 2016, o inesperado resultado do referendo relativo ao Brexit levantou dúvidas em relação à sustentabilidade desta parceria.

O relatório procura oferecer recomendações estratégicas à Market Access em relação a como lidar com o seu parceiro sediado na Escócia, Cormack Consultancy Group, dados este recente evento. A questão do Brexit é discutida com base em testemunhos de economistas líderes europeus, instituições governamentais e ainda, declarações oficiais de representantes do Reino Unido (UK) e da União Europeia (UE). Três cenários de comércio pós-Brexit UE-UK são descritos e analisados numa perspectiva macroeconómica e da parceria Market Access – Cormack Consultancy Group.

Dado que a parceria ainda não está totalmente desenvolvida e consolidada, e ambas as empresas são jovens, em fase de crescimento e flexíveis, a recomendação estratégica a médio prazo em termos gerais que se oferece à Market Access é a de permanecer flexível e preparada para readaptar os seus serviços. A estratégica aplicável ao período antecedente às negociações do Brexit é sugerida, tal como são as recomendações específicas a cada cenário procedente ao Brexit.

Este relatório esclarece algumas das dúvidas que surgiram com o resultado do Brexit e oferece aconselhamento estratégico à Market Access, baseada em análise sistemática.

Códigos-JEL: F15, F23, M16

Palavras-chave: Integração económica, Brexit, União Europeia, internacionalização, estratégia de internacionalização, Market Access

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Introduction

This report is an outcome of the curricular internship at the host institution Market Access (MA) that took place between September 2016 and February 2017. Market Access is a Portuguese-based international business consultancy that was founded in 2005 and over the years of functioning helped over 400 firms and organisations, both from Portugal and other countries, to pursue their internationalization projects.

As a young and growing company, Market Access decided to develop their business in other markets by finding a partner company that would offer similar services, would have experience finding local clients, and could benefit from Market Access' international network that reaches over 50 countries and possibly expand the number of markets. A recent partnership with a Scottish-based Cormack Consultancy Group (CCG) was formed in 2015.

In June, 2016, the United Kingdom European Union membership referendum that was held to decide the future of the UK had an unexpected outcome when the majority of the expressed votes were in favour of leaving the EU. MA expressed concern regarding the recently formed partnership with CCG.

The aim of this report is to offer strategy recommendations for Market Access concerning their Scottish partner, taking into account the development of recent events.

The strategy guidance should be based on structured and systematic analysis. The uncertainty around Brexit makes it desirable to understand better what can happen to the UK-EU relations, and what could be the consequences of Brexit for the partnership between MA and CCG. The specific objectives of the internship report in order to reach the aim are to:

(1) Compare testimonials of leading European economists and government institutions about Brexit;

(2) Describe and discuss possible scenarios of future relationship between the European Union and the United Kingdom;

(3) Make recommendations on the internationalization strategy of Market Access given the prospects of the UK-EU relationship.

The Brexit vote might be a trigger for reduced integration of the political and economic union that is being built since the end of the World War II. For several decades we have witnessed a strong movement for economic integration of Europe that was done through the creation of the European Union (EU), a political and economic union which in 2016 reached the number of 28 member states, classifying as one of the largest world economies. Nevertheless, the Brexit vote in June 2016 is perhaps the most noteworthy call for reduced integration that the EU has seen, bringing significant uncertainties regarding the future of both the UK and the EU. As it is a recent event, there have not been many studies treating this topic and applying it to business level.

The Brexit vote and its likely consequence—the United Kingdom (the UK) leaving the European Union (the EU)—can have a strong impact on businesses and change the conditions of international business between the UK and the rest of the EU, but also between the UK and other trade partners. As Market Access is present in the British market through a strategic partnership with Cormack Consultancy Group, a modification of trade agreements with the UK might have consequences on their operations and turnover. Such a change could cause reduced interest of British firms to invest in continental Europe. This internship report shall clarify the Brexit question, and through a systematic analysis present recommendations on Market Access' internationalization strategy.

Chapter 1 focuses on the internship, and presents the host institution Market Access in more detail. Chapter 2 recalls the path of the European economic integration that led to Brexit, and discusses the future of the UK-EU relations. In Chapter 3, discloses and discusses in-field evidence collected thanks to the internship at Market Access, defines possible scenarios of future UK-EU relations following Brexit, analyses their consequences both from the macroeconomic and the microeconomic perspective, and presents strategy recommendations for Market Access. The report ends with a conclusion and limitations of this study.

Chapter 1. Internship

1.1 Host institution

Market Access is a Portuguese based consultancy firm that is focused on supporting firms in entering international markets. It is an SME with 12 years of experience in the market, and it has an extensive network of consultants and partners that covers over 50 countries of the world. This network is of crucial importance for the firm's operations and quality of services. Market Access offers various services for firms, organisations, and associations that are interested in approaching foreign markets.

Tasks performed during the internship

The 6-months internship took place in the facilities of Market Access, Ltd. in Leça da Palmeira, Porto region, Portugal, between September 2016 and February 2017. The main objective of the internship was to understand the functioning of the operations and managerial strategies of Market Access, with an emphasis on the international sales partners and the international network. The goal was to have enough information and knowledge about the firm to be able to perform a critical analysis of the given strategy regarding the Scottish partner Cormack Consultancy Group.

In order to reach this objective, a set of practical actions such as joint management of potential clients with the international sales partners, and preparation of necessary documents and support materials to facilitate sales process was conducted and it was accounted for the main activity during the whole period of the internship. In the first weeks of the internship, a task to work on elaboration of a practical market research for a given client was assigned, with the objective to get acquainted with the operational part of the firm. Moreover, as Market Access is in a preparatory phase for the ISO 9001 certification, another set of activities that was assigned was related to the support in preparations of documents and mapping of processes in the area of international network management.

Services offered by Market Access

Market Access developed a range of services that they offer as a tool for their clients to enter international markets. Each service has a predefined general methodology, yet each project is adapted to the needs and expectations of the client. Moreover, a combination of several services is possible, for example a project of support at trade fair with aspects of a trade mission. It is common that once a specific project ends, for instance a trade mission, it can be followed by another project such as a market development project.

The most basic service that Market Access offers is a market selection project which aims to help the client to assess which market is the most perspective to approach, using a set of quantitative and qualitative indicators. It is a tailor-made market study of the sector of activity of the client that evaluates ten different markets. The project results in a report on the selected markets, a quantitative evaluation, and a ranking of the most potential markets.

The most traditional service is a trade mission that is a short term project lasting between 8 and 12 weeks, with an objective to explore business opportunities in a target market. The main deliverable of the project is an agenda of meetings scheduled for the client who will go on a business visit to the target market, ranging between two and five days, depending on the geography and number of meetings scheduled.

Some organisations prefer to approach their target market by visiting or exhibiting at a trade fair. Market Access offers a project in which their local consultant supports the client at the trade fair. It involves a few weeks' preparation before the event with the invitation of potential buyers or interested parties to the stand of the exhibiting client, or, in the case of a client that is just visiting, scheduling meetings with exhibiting organisations and firms.

The most complex and most appropriate service to achieve success in European markets is a market development project which lasts between six and twelve months, depending on the size of the market and the number of markets. The approach with this type of project is to work as a temporary extension to the client's sales or export department, promoting the entering of the client to the target market or markets. Within this project, a phase of preparation for entry can be done as well--translation of marketing and technical materials, help with adaptation of the product to the target market, and others. One or more business visits are possible within the duration of the project, depending on the level of interest of potential buyers or contacts in the target market or markets.

Inverse trade mission is a popular project for sectorial associations such as food, textiles, or construction associations. This type of project is a long term project that can last over one year, during which potential buyers or partners from target markets are invited to meet with usually more than one member of the association. The potential buyers or partners are preselected by Market Access and must be approved by the client association before the visit takes place.

Although Market Access offers the above described types of projects, it is also possible to get a tailor-made internationalization service that can be jointly designed by the client and Market Access. The appropriate entry strategy and the target market is usually discussed and refined between Market Access and the client, depending on the product/service in question, expectations, and goals. Moreover, some of Market Access consultants present in international markets are specialized in implementing certain types of projects but not necessarily all the above listed types of projects.

1.2 Market Access' internationalization strategy

Market Access has a large international network covering over 50 countries in the world, with the plan to solidify the network in existing markets and expand to new markets. The main function of the network is to implement internationalization projects that are sold primarily to Portuguese firms wishing to expand their activities to foreign markets.

During the past few years, Market Access has been aiming to reach more international clients that would be interested in their services. In order to get the international clients outside of Portugal, a physical and active presence of a sales representative in the market is needed. For this reason, Market Access decided to look for a partner able to provide similar services, share the same values, and benefit from Market Access' expertise, success, and international network. In 2015, a strategic partnership with Scottish firm Cormack Consultancy Group was established.

CCG is smaller than Market Access, but with a strong presence and success in helping British firms to expand abroad since 2000. CCG has its offices in several markets; the head office is in Edinburg, Scotland, UK, and other offices are in the USA, Lithuania, Latvia, and Romania. This network opened opportunities for Market Access not only in the British market, but also Market Access decided to actively explore the Baltic markets--Lithuania and Latvia.

In November 2016, Civitta, a large consultancy group based in Estonia, with its primary activity in the Baltic states but covering most of Eastern and South-eastern Europe, acquired the CCG Baltics office. Charles Cormack, the founder of CCG, justified this transition as a strategic move to shift their focus away from the Baltic markets and gain a more global outlook, reaching a wider range of world markets, thanks to the partnership with Market Access[1].

As the local presence and networks of each of the three firms are valuable, as of the beginning of 2017, Market Access is a strategic partner of both Cormack Consultancy Group and Civitta. The majority of international sales activities of Market Access happens through the strategic partnership in Lithuania, Latvia, and the UK. Given the Brexit vote and the threat of the UK losing access to the European Single Market, the partnership with CCG UK can be worrisome and the situation and real impacts should be further analysed.

[1] For more details, see Appendix A – Interview with Charles Cormack.

Chapter 2. From European economic integration to Brexit

This Chapter aims to describe briefly the evolution of the European economic integration, and investigate the literature treating the question of Brexit.

2.1 Economic integration and the European project

Béla Balassa, one of the major contributors in the field of economic integration, defines economic integration as “a process and as a state of affairs. Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies.” (1961, p. 174).

Although Jacob Viner’s classic work “The Customs Union Issue” set a theoretical framework for the scientific field of economic integration (Viner, 2014), it was Balassa who based his work on Viner’s contribution and succeeded in developing and identifying different stages of economic integration. The stages are free-trade area, a customs union, a common market, an economic union, and complete economic integration; the latter stage comprises of economic, social, fiscal, monetary, and countercyclical policies that are in hands of a supra-national authority whose decisions are binding for member states (Balassa, 1961).

The milestone for global economic integration through trade liberalisation was the creation of the General Agreement on Tariffs and Trade (GATT) in 1948 by 23 countries, which can be seen as an attempt to correct protectionist policy from early 1930s, and the devastating World War II (World Trade Organization, 2017). Within the 47 years of existence of GATT, a continuous tariff and non-tariff barriers reductions were multilaterally agreed, and with higher maturity of the organisation, other international trade issues such as intellectual property, or dispute settlement were resolved, covering 123 members in early 1990s. In 1995, the GATT was replaced by the World Trade Organisation (WTO).

The economic literature presents mainly positive effects of economic integration on a country's growth and welfare. Economically integrated countries have interactions in several dimensions, such as facilitated trade, easier access to capital, and information exchange via different channels that enhance growth (Grossman and Helpman, 1993). Balassa (1961) argues that one of the most important advantages of economic integration is the opportunity to exploit economies of scale given access to a larger market. Baldwin (1989) promotes the advantage of lower trade costs (due to decreased or absent tariff and non-tariff barriers), and factors mobility such as freedom of movement of goods, services, capital, and labour—these four freedom are considered to be one of the key definitions of the European Economic Area. Coe and Helpman (1995) emphasize the positive effects of enhanced total factor productivity that arises from shared technology and joint Research and Development programs.

Although there are strong arguments for economic integrations, there is a debate on the nature of the effects associated to the integration, and that is if they are temporary or permanent. Neoclassical growth theory and endogenous growth theory without scale effect find that these effects are present, but only temporary, while endogenous growth theory with scale effects believe that the effects are both present and permanent. (Badinger, 2005)

The European Union and its integration

The second half of the twentieth century was in the spirit of economic integration in Western Europe. This movement was strongly supported not only by politicians who were interested in peacekeeping right after the destructive World War II, but also by economists researching the process of economic integration and its impacts on welfare. This political background led to the creation of the European Coal and Steel Community in 1950 and later in 1957, the European Economic Community was founded by six member states, creating a Common Market. As of 2017, the EU has 28 member states and is classified as economic and monetary union; the latter is known as Eurozone or European Monetary Union (EMU) which consists of 19 member states that accepted Euro as their currency (Europa.eu, 2017).

The project of the European integration that started with six of West European countries grew to a large scale, helping the development and consolidation of the Western and Eastern European countries. Nevertheless, the decade of 2010s has been challenging for the EU with several paramount challenges to deal with such as the spreading of the global economic crisis, the European debt crisis, rise of Euroscepticism, and the migrant crisis. At least partly as a result of all these issues, calls for slowing down or even reverse the process of integration within the EU started to appear; the most marking call coming from the United Kingdom. Although for many economists economic integration goes hand in hand with political integration (Brou and Ruta, 2011), (Alesina et al.) believe that "as the process of economic "globalization" will progress, political separatism will continue to be alive and well" (2000, p. 1293-1294), putting an example of Catalonia in Spain, Brittany in France, or Scotland in the UK that have been fighting for their independence.

2.2 Brexit

As the political pressure from the Eurosceptic party in the UK grew, David Cameron, the Prime Minister at the time, promised to hold the United Kingdom European Union membership referendum that took place on June 23rd, 2016. The majority (52% of the expressed votes) voted "Leave" which led to a more profound discussion on the topic of "Brexit".

The word "Brexit" was first seen in *The Economist* magazine in 2012. It is believed that it was inspired by the term "Grexit" invented by Ebrahim Rahbari and Willem Buiter which is a combination of the words "Greece" and "exit"—a possible situation of Greece leaving the EU (Atkins, 2012). Therefore, the term Brexit (an aggregation between the words "Britain" and "Exit") describes the position of the United Kingdom leaving the EU.

Several months prior to the referendum, leading British and other European economists and many government institutions started to publish reports and articles analysing and predicting effects and consequences of Brexit. There were some positive assessments of Brexit effects on the UK, mainly by Brexit supporters such as a group that used to be known as "Economists for Brexit", but recently changed their name to "Economists for Free Trade"[2]. A vast majority of this scientific literature agreed on negative results both on the UK economy and on the EU economy. Nevertheless, the

[2] https://www.economistsforfreetrade.com/

"Leave" vote prevailed over the "Remain" which leads to different interpretations. Pettifor interprets the result of the Brexit vote as "latest manifestation of popular dissatisfaction with the economists' globalized, marketized society" (2017, p.131). Begg sees a tendency of "widespread disenchantment about globalisation" in several developed economies, including the UK and the Brexit vote (2016, p.33). Cumming and Zahra believe that both in the UK and in North America the economic and political reach of multinationals and the international trade deals "have left millions without economic and political power. Some called for need to balance economic and technological progress with national sovereignty and inclusiveness" (2016, p.689). From a slightly different perspective, Ryan (2016) argues that based on the May 2015 survey on knowledge of the British population about the EU in which the results of the British were the worst among all the 28 members of the EU, this lack of knowledge, jointly with misleading arguments of Brexit campaign, could have had an impact on the Brexit vote. Entis (2016) believes that although there were many reasons that motivated British citizens to vote "Leave", immigration was one of the major issues.

The United Kingdom European Union membership referendum, also known as the Brexit referendum, can be considered as a consultation of the British population about the future direction of the UK. In order to formalize the request to leave the EU, the UK Prime Minister needs to trigger the Article 50 of the Lisbon Treaty that "provides for a mechanism for the voluntary and unilateral withdrawal of a country from the European Union" (EUR-Lex, 2017). The European Council provides with the guidelines for Brexit negotiations. Only when the agreement between the UK and the EU is reached, or within maximum of 2 years from the triggering of the Article 50 (unless the period is extended by the European Council), the EU treaties cease to apply in the UK and the UK becomes independent from the EU.

Brexit and its medium and long term effects on the UK economy

There are several scientific publications assessing long term effects of the Brexit vote on the British economy, yet the estimations vary considerably and do not allow any clear conclusions. The majority of mainstream studies estimate a long term cost of 1-5% of GDP per capita (Busch and Matthes, 2016a). However, the estimates range from an increase in GDP per capita by 11.5% in case of Brexit (Congdon, 2014) to a decrease in

GDP per capita by 20% or more in case of Brexit (Campos et al., 2014). The meta-analysis by Busch and Matthes (2016b) that is focused on pre-Brexit studies assessing long term effects of Brexit on the British economy manages to evaluate thoroughly these studies and brings new and more consistent findings.

In terms of methodology, Busch and Matthes (2016b) divide the studies in two major groups; the forward looking models (ex ante) and backward looking models (ex post). Among the studies that chose the ex ante approach, we can observe mainly computable general equilibrium (CGE) trade models and new quantitative trade models (NQTM). Among the backward looking, we have also CGE models, studies using rather new synthetic counterfactual method (SCM), modern gravity model, employ the trade-income-relationship to estimate Britain's future income, or regression analyses (Busch and Matthes, 2016b).

The studies that Busch and Matthes (2016a) assess as reliable and comprehending most relevant factors, tend to agree on the following: the economic disadvantages of Brexit seems to be more important than potential advantages. In terms of magnitude of the costs, most mainstream researchers estimate rather low long term cost of about 1-5% of GDP per capita. However, Busch and Matthes (2016a) question the methods used by many mainstream researchers, stating that even the most reliable models seem not to include all relevant channels of welfare creation that comes from economic integration.

Another important fact that Busch and Matthes (2016a) highlight as a criticism to mainstream ex ante researches is that ex post analyses tend to show significantly larger effects of trade integration in comparison to ex ante models. The authors present their own approach that estimates significantly higher costs than most of the mainstream forward looking studies. In their pessimistic scenario, a long run loss in GDP per capita can easily overpass 10% in case of Brexit.

A study by the British governmental entity HM Treasury (2016) estimates the effects in the medium-term, which is projected to be around 2 years from the Brexit vote. Firstly, they consider two possible scenarios: one consisting of a "shock" after the Brexit vote which would lead to expected loss in GDP per capita of 3.6% in comparison to "Remain" vote, depreciation of British pound (GBP) by 12% and an increase in unemployment by 0.5 million inhabitants; and another scenario characterized by "severe shock", in result of which the expected loss of GDP is of 6% (in comparison to "Remain" vote), depreciation of GBP by 15% and increased unemployment by 0.8 million inhabitants. Additionally, the (HM Treasury) report mentions that prolongation of negotiations with the EU for a period longer than 2 years would generate even more severe negative effect. These impacts are nourished by the situation of uncertainty that causes economic agents (firms and households) to postpone consumption or investment until the macroeconomic environment stabilizes (also known as wait-and-see effect). Moreover, financial institutions are subjected to higher risk premium which increases the cost of capital (Rieth et al., 2016).

Post-Brexit trade agreement between the United Kingdom and the European Union

All the above mentioned studies of impacts of Brexit on the British economy make their assumptions on the future trade agreement between the UK and the EU, and between the UK and other world trade partners. However, the extent of the trade loss is often deemed to be underestimated. Today, 60% of British trade is with the EU and EU trade agreement partners. Moreover, if the current EU negotiations are concluded, the share will rise to 85% of British trade partners (Busch and Matthes, 2016a). Britain's expected exit from the EU (also called Hard Brexit) implies loss of access to the European Single Market but also loss of the trade agreements negotiated by the EU with third parties. In addition, trade barriers (tariff or non-tariff barriers) will increase British export cost and reduce time efficiency.

This mainstream view is challenged by one of the *Economists for Brexi*t, Professor Patrick Minford, who argues that the EU trade policy of protection of the agriculture and manufacturing products increases the prices above the level of world prices, thus creating an uncompetitive market due to non-tariff barriers (Minford, 2016). Minford (2016) suggests that abandoning the EU trade policy, and accepting the WTO rules with the EU and all other trade partners, will lead to a trade under free market prices, and for the UK a welfare gain of 4% of GDP, and a decrease in consumer prices by 8%.

Right after the Brexit vote, the main source of uncertainty that arose from the result of the referendum was associated with the after-Brexit trade agreement between UK and the EU. A number of articles and reports list the options of the UK and conclude that the "Norway" model, which consists of maintaining the trade privileges of the

European Economic Area (EEA), cannot be politically accepted as it would consist of giving up even more sovereignty. The only practical change from the pre-Brexit situation would be a loss of voice in defining all new EU regulations.

Busch and Matthes (2016a), Dhingra and Sampson (2016), Pisani-Ferry et al. (2016), Fletcher and Zahn (2016), and Ryan (2016) present a second option that is following the model of "Switzerland" which is characterized by a lower level of trade integration than EEA, barriers to the movement of services, no need for compliance with the EU social and unemployment regulations and other costly policies, and barriers to movement of persons. However, this option seems unlikely to be accepted by the EU during the negotiations.

The third option described by Busch and Matthes (2016a) is to follow the "Turkey" example which allows for free movement of goods but not of services, capital and persons. As restrictions on movement of services and capital is a major drawback, the UK would have a strong interest to negotiate a privileged partnership in this area as well, yet the EU would likely refuse a customs union as the case of Turkey was presumably designed with prospects of future possible membership of Turkey in the EU. Begg (2016) presents an option of a similar agreement to the one recently negotiated with Canada, which resulted in part of a free trade area with some restrictions.

Finally Begg (2016), Dhingra and Sampson (2016), Ryan (2016), HM Treasury (2016), International Monetary Fund (2016), Pisani-Ferry et al. (2016), Fletcher and Zahn (2016), and Busch and Matthes (2016a) note that the lowest level of trade integration would be for the UK to have the Most Favourite Nation treatment as any other WTO member which consists of export tariff between 4.2% and 15% depending on the product.

It is important to mention that the above described arrangements of a new trade agreement was solely related to the relationship between the UK and the EU. However, in terms of impacts of Brexit on the British trade, we have to acknowledge also the cost of further negotiations with other non-EU countries that the UK had privileged access only as a member of the EU.

In addition to the listed scenarios of trade agreements that are based on existing models, Pisani-Ferry et al. (2016) suggest an innovative approach to create a "Continental Partnership"—a new organisation of the EU into two circles; the inner circle being the (close to fully integrated) political union, and the outer circle that "would not participate in the freedom of movement of workers, would not share the political commitment to ever closer union, and would have less political influence over decisions of common interest".

All of the listed authors agree on the following; the one extreme of Brexit ("soft Brexit") is that the UK stays a member of the European Economic Area—following the Norway model, the other extreme ("hard Brexit") is that the UK loses access to the Single Market and has a status of most preferred nation of WTO. This is one of the main topics of Brexit negotiations between the UK and the rest of the EU. The literature suggests that there is a space for a bilateral agreement between the UK and the EU, that could offer better trade conditions that the WTO agreement, emphasizing that there is a trade-off between benefits of economic integration and political sovereignty of the UK. Figure 1 provides with a summary of four main possible trade agreements that the UK can negotiate with the rest of the EU, including advantages and disadvantages of each option. The UK position seems to be more inclined to hard Brexit, and as the UK Prime Minister Theresa May states, the UK does not wish to follow models of other countries that are part of the EEA, or EFTA (BBC News, 2017a).

Options for the UK outside the EU

	Pros	Cons
EEA – the Norway model	o Belong to the Single Market. o Able to negotiate trade deals independently of the EU.	o Required to implement Single Market policies, but have no representation in setting the rules of the Single Market. o Must comply with rules of origin for exports to the EU and subject to EU anti-dumping measures. o Must contribute to the EU budget.
Bilateral agreements – the Swiss model	o Free trade in goods and free movement of people with the EU. o Able to negotiate trade deals independently of the EU. o A la carte approach permits opting out of EU programmes on a case-by-case basis.	o Bilateral agreements require Switzerland to adopt EU rules, but Swiss have no representation in EU decision making. o No agreement with the EU on trade in services. o Pay a fee to participate in EU programmes, but contribution likely to be lower than if in EEA.
EFTA	o Free trade in goods with the EU. o Able to negotiate trade deals independently of the EU. o Not required to adopt EU economic policies and regulations. o No obligation to contribute to the EU budget.	o No freedom of movement of people with the EU. o No right of access to EU markets for service providers. o Goods exported to the EU must meet EU product standards.
WTO	o Able to negotiate trade deals independently of the EU. o Not required to adopt EU economic policies and regulations. o No obligation to contribute to the EU budget.	o Trade with EU subject to MFN tariffs and any non-tariff barriers that comply with WTO agreements. o No freedom of movement of people with the EU. o No right of access to EU markets for service providers. o Goods exported to the EU must meet EU product standards.

Figure 1 - Options for the UK - EU post-Brexit trade agreement

Source: Dhingra and Sampson (2016)

Brexit and Scotland

So far in this report, the focus of the assessment of Brexit impacts was on the UK as a whole. However, many authors question the possibility of Scotland as a potentially independent country. An independence referendum in Scotland took place in 2014 to decide whether Scotland should be an independent country from the UK that resulted in majority of Scots voting “No”. Yet, eight months afterwards, the Scottish nationalist political party that has much more pro-European than pro-England views, won the majority of seats in the election (Ryan, 2016). Moreover, during the Brexit referendum, a strong majority of Scottish voted to “Remain” in the EU. Ryan (2016), Fletcher and Zahn (2016), and Begg (2016) suggest a possible scenario of a new referendum in Scotland on its independence from the UK and remaining in the EU.

Fletcher and Zahn (2016) question if it would be an option for Scotland to remain both in the EU, while belonging to the UK. They bring forward the example of other parts of EU member stated that have different parts of EU laws being applied—the case of Denmark and Greenland in which Greenland, constitutional part of Denmark, chose to leave the EU in 1985. Ramsey (2016) believes that in case the UK does not leave the Single Market entirely, there could be a possibility of a “reverse Greenland”.

The Scottish first minister Nicola Sturgeon stated in March 2017 that she intends to throw a second referendum on Scottish independence between autumn 2018 and spring 2019--at a time when Brexit negotiations are clearer and reaching a conclusion (BBC News, 2017b). It is yet unclear which direction Scotland would choose: to continue as a member of the EU and face a large geographic distance to the continental Europe, or to remain as part of the UK and leave the EU jointly within Brexit.

Moreover, Doherty et al. (2017) point out the situation of Northern Ireland where 56% of population voted for “Remain” and which is the only country of the UK that has land borders with another EU member state—Ireland. There are several challenges of Brexit for this country, namely the future of bilateral agreements between the UK (Northern Ireland) and Ireland such as Common Travel Area, or Belfast/Good Friday Agreement. Moreover, Northern Ireland has strongly integrated trade and supply and production chains, but also some institutions with the independent country of Ireland.

Brexit and the European Union

Most literature related to Brexit treats the question from the UK point of view. The majority of scientific papers and reports were published before the June 2016 referendum in order to estimate the economic advantages and disadvantages of the EU membership so that the British population has scientific analyses available to make a more informed decision. Naturally, following the “Leave” vote, more recent literature that analyses the perspective of EU member states and businesses outside of the UK starts to appear.

An eBook *What to do with the UK? EU perspectives on Brexit* that comprises of testimonials and opinions of 25 European economists from 15 EU member states and Switzerland, brings useful insights from the experts that can help understand the EU position regarding the Brexit question (Wyplosz, 2016). Charles Wyplosz describes the decades of perceived European integration under the “bicycle principle: you must keep moving forward, if you stop, you fall off”, and calls Brexit a “stunning change” that was not expected by the EU member states and governments were not prepared for a strategy on what to do in case of “Leave”.

The negotiations that are to start once Article 50 is triggered will be between the representatives of the EU and the UK. However, finding a collective position of the EU might be a big challenge; firstly, each member state needs to decide their position, and secondly, the 27 member states need to find a common position, which can lead to the EU27-UK negotiation.

The economists that contributed to the eBook *What to do with the UK? EU perspectives on Brexit*, were asked to present their opinion on three major issues that the UK-EU negotiations must cover; desired trade agreement, foreign direct investment (FDI), and labour mobility. Regarding trade, the UK is relatively small destination of EU27’ exports, yet for some smaller member states such as Ireland it remains a large and important trading partner, while from the perspective of the UK, the EU is a destination of around half of British exports. Regarding foreign direct investment, mainly smaller member states such as Ireland, Netherlands, or Luxembourg, have strong in and out flows of FDI with the UK, while larger member states, such as France, Germany, or Spain, receive more FDI from the UK then send. Labour mobility is a very sensitive topic as one of the main topics of the Brexit campaign was to regulate the migration and to close the

UK borders to EU labour movements. The British position is to leave the Single Market and an immediate question is what will be the rights from the EU citizens living in the UK, and of British citizens living in EU member states (Wyplosz, 2016).

Wyplosz (2016) also engages in the debate about what Brexit should look like and there are basically two views; a 'hard' and 'soft' Brexit, which comes down to a "deep severance of economic and political links on the one hand, and a quasi-membership associated with mutual concessions on the other" (Wyplosz, 2016). Many economists from different EU members state that hard Brexit, with negotiations starting with a "clean slate" rather than changing current agreement, should be preferred. Some countries, mainly those with strong economic and historical ties, might be more inclined to promote soft Brexit. The main problem associated with soft Brexit is a fear of EU27 that other member states might seek the same arrangement and follow the steps of the UK which can lead to further damage of the EU project.

Although testimonials and opinions from many European economists were disclosed in the eBook, as Market Access is based in Portugal, we put more focus on the testimonial of local authors. Portugal is in the group of potentially "soft" negotiators as it has very strong commercial ties with the UK, with UK being the fourth most important trading partner for Portugal, after Spain, France, and Germany (Tavares and Jorge, 2016). Moreover, freedom of movement of people is a big issue as there are a lot of recent emigrants from Portugal that are living in the UK, but also Portugal is a popular destination for British tourists and senior British citizens. Tavares and Jorge (2016) believe that the most likely outcome of Brexit negotiations is a hard Brexit, and in that case Portugal will most likely try to reach a bilateral agreement with the UK on certain level of freedom of movement of people—this negotiation can take up to a decade.

Predictions of Brexit impact on businesses

Both Begg (2016) and Busch and Matthes (2016a) predict that as a result of Brexit, there will be a partial relocation of the financial centre from London to big EU financial capitals such as Frankfurt and Paris. Furthermore, many British-based firms that are exporting to the EU will shift part of their jobs and offices (some even headquarters) to the European continent to keep their access to the EU market that is crucial for their operations. Cumming and Zahra (2016) suggest that also human resources might be affected, as "the financial and technological uncertainties created by Brexit are likely to encourage entrepreneurs to locate elsewhere in the EU", Dishman (2016) points out that results of a survey show that 20% of British entrepreneurs think of moving to another country.

According to Casson (2016), British businesses need to evaluate the following risks: depreciation of pound, stock volatility, financing and investing uncertainty, trade barriers, and withdrawal of the EU regional funding. Moreover, financial sector should beware of future loss of passporting rights (International Monetary Fund, 2016), (Pisani-Ferry et al., 2016), (Galbraith, 2017).

Holmes et al. (2016) highlight the importance of national and supra-national institutions that have a substantial impact on the time horizon of managers' planning of international expansion, R&D expenditures, and other capital spending and investments. Relating this to the question of Brexit, Holmes et al. (2016) claim that "with Brexit, these institutions are subject to considerable strain, if not upheaval. This is likely to create institutional voids that cause delays in business decisions." As a result of Brexit, legal barriers concerning limitation of immigration and trade are likely to be implemented. Such barriers are believed to be decreasing the positive impacts of entrepreneurship on economic growth (Cumming et al., 2014), (Zahra, 2014). Entis (2016) points out that the evidence specific to Brexit is consistent with the literature that predicted negative impacts of Brexit on the UK economy; stating that part of these impacts can be explained by Brexit's barriers to immigration, and highlighting the importance of immigration on growth and development.

Although most predict that Brexit and the uncertainty surrounding the future UK trade relations with the rest of the EU and other trade partners will have a negative impact, some believe that small businesses can face the threat and turn it into an opportunity by adapting and refocusing their strategy, as well as taking advantage of lower borrowing costs (Dishman, 2016).

Chapter 3. Prospects for Market Access internationalization strategy

In the introduction of this report, we have identified the following specific research objectives:

(1) Compare testimonials of leading European economists and government institutions about Brexit;

(2) Describe and discuss possible scenarios of future relationship between the EU and the UK;

(3) Make recommendations on the internationalization strategy of Market Access given the prospects of the UK-EU relationship.

Once the testimonials have been collected, analysed and integrated to reach conclusions about the possible future arrangement of the UK-EU relation, the report now proceeds towards objectives (2) and (3).

As the formal negotiation process between the UK and the rest of the EU starts in March 2017 at the moment that the Article 50 of the Lisbon Treaty is triggered, a certain degree of uncertainty will remain, yet some scenarios become more likely to happen than others. To ensure a broader analysis that can bring useful insights, a list of several possible scenarios is created based on the latest official statements.

Given the prospects of the future relationship between the UK and the EU, we get now to the stage of applying the analysis on the business level, in particular from the perspective of MA-CCG partnership. During this stage of the analysis, a testimonial of CCG manager is of great importance, together with literature that tries to predict the impacts of Brexit on businesses. This analysis serves as a basis for strategy recommendation both for general short and medium term strategy guidelines, and also for some specific suggestions for each scenario.

3.1. Evidence of changes in business strategy following the Brexit vote

In-field empirical evidence

The following part of the report presents empirical evidence of the Brexit impacts on business, with a focus on concrete cases of British firms and organisations that were possible to observe thanks to the activities of MA-CCG.

As MA and CCG provide services for international expansion and approaching of foreign markets, and deal with local companies and organisations on a daily basis, the in-field experience can be considered as sufficiently relevant to get the right idea about the overall market situation. Charles Cormack, the founder of CCG and the main figure that deals with British potential clients highlighted several major changes in companies' behaviour that he observes since the Brexit vote (See Appendix A). Firstly, there is a general shift of interest from the EU markets towards markets outside of Europe, mainly towards the USA and large South American countries such as Brazil or Colombia. Secondly, compatible with the literature predicting the impacts of Brexit, we have observed that a lot of British companies postpone their internationalization projects due to the uncertainty of future UK-EU relationship. In fact, several firms provided with a feedback that they are interested in MA-CCG services, yet prefer to focus now on the home market and expect to come back to the internationalization plans in one-year time.

British universities and research centres are a marking exception from this general trend. Since the Brexit vote, these educational organisations are focusing more on finding partner universities in EU. Charles Cormack explains this change and believes that the reasoning is that the British universities considered the EU market as their home market, and for long time they have been benefiting from exchange programs covered by the EU funds and programmes (such as Erasmus+ program). Since the access to these funds and programs is likely to become limited, the universities are developing their individual strategy for Europe, trying to get partnerships with EU universities before the Brexit negotiations are concluded.

Some of the potential clients that have been discussing internationalization opportunities with MA-CCG mentioned that the Brexit vote made them change their strategy. One concrete example is a British owner and the main sales representative of a British company that produces their food products in Spain and sells them solely in the British market[3]. This businessman stated that due to Brexit, they decided to change their strategy, abandon the British market, and refocus the target market to Western European countries. The reasoning was that the business operations would become too costly if the same business model was used; buy primary materials and produce in Spain, export to the UK (facing potential trade barriers), and sell on the UK market whose purchasing power has decreased dramatically.

Several authors predicted that British companies and organisations whose main market is the EU will consider relocation of part of their offices or even their headquarters to a EU member state in order to grant their access to the Single Market. As a response to this new demand on the British market, Cormack Consultancy Group started to offer a new service that comprises of assisting the client in relocation of their office to the EU markets that are covered by CCG. The most promoted destination are the Baltic states where CCG has their experienced local consultants that are able to assist with administrative and bureaucratic issues. Charles Cormack stated that at the moment they are helping several British firms to settle their office in the Baltics.

Undoubtedly, there have been many changes in firms' and organisations' strategy that are connected to the results of the Brexit vote. Some firms decided to follow the "wait and see" strategy, some decided to focus away from the EU markets for the time being and focus on other markets, and some that cannot take the risk of losing access to the European Single Market pursue their internationalization project by finding partners or moving their own (head)office in the EU. Table 1 offers a summary of the recorded changes in business strategy that are a result of the Brexit vote.

In-field empirical evidence	Explanation
Postponing of investment	Wait and see strategy

[3] More concrete information or name of the potential client cannot be disclosed due to confidentiality reasons.

Switch of target market for international expansion	Expansionist strategy for certain markets, wait and see for others
Internationalization through a strategic partner finding in EU	Expansionist strategy
Relocation of headquarters to the EU	Expansionist strategy

Table 1 - Summary of empirical evidence of changes in business strategy due to Brexit referendum

Source: Author's own conception

Exchange rate impacts

Adding to all above described barriers and limits, the British pound depreciation has been harmful for the partnership between MA and CCG UK. On the day when the Brexit referendum votes were published, the financial markets showed a radical drop of British pound in relation to other strong world currencies. During the year 2015, the exchange rate was above 1.35 GBP/EUR, in the first 6 months of 2016, before the Brexit referendum, the rate was around 1.30 GBP/EUR. Following the results of the vote, a major fall of the pound occurred, and the exchange rate since the vote has been around 1.15 GBP/EUR, resulting into more than 10% of depreciation of the British pound against the Euro (See Figure 2).

Figure 2 – GBP to EUR exchange rate

Source: XE

Market Access as a Portuguese-based firm does face a certain exchange rate risk. Although its services are invoiced in local currency—Euro, there are some projects that concern British organisations that wish to approach a foreign market. In that case, it is a common practice that these services are denominated in British pounds as they can be a subject to export subsidies that are often applicable only if this service is provided by and invoiced by a local consultancy firm.

Even though there is no direct financial risk regarding uncertainty of revenues from sold services as the services provided by Market Access office are invoiced in EUR, the historically dramatic depreciation of the British pound related to Euro still has a relevant impact on Market Access. When British partner CCG presents the proposal of services to a potential British client, the final price is denominated in British pounds. Therefore, the final price in British pounds is composed of Market Access price in euros and a margin for CCG UK that adds into account the exchange rate risk. With a depreciation of around 10%, Market Access becomes a priori (unless part of the loss of competitiveness is absorbed by lower margin of CCG UK) directly 10% less competitive which can have an impact on the number of UK clients willing to work with MA-CCG.

The drop of the British pound is harmful for the concrete case of MA-CCG, but for some British industries and firms, the radical depreciation of the pound sterling led to an increased price competitiveness and higher profits. The British tourism has experienced its records in visitors coming mainly from North America and the EU, a big part of this increase can be explained by the weaker pound (Allen, 2017). Other British producers and shops such as Primark, took advantage of the inflow of tourists and show record-high revenues (*Primark lucra com o Brexit*, 2017).

3.2. Listing and description of possible scenarios of the post-Brexit UK-EU trade relations

The literature that describes and analyses various possibilities of trade relations between the UK and the rest of the EU that can arise as a consequence of the “Leave” vote at the Brexit referendum, defines two extreme solutions: (i) remaining in the European Economic Area (taking a similar position as Norway); and (ii) losing the access to the European Single Market, taking a position as a non-privileged WTO member, following the most preferred nation tariff. Some authors suggest different trade models with limited access to the EEA, yet preferential than the WTO member status. These possible trade agreements either follow a model of a given country, such as Switzerland, Canada, or Turkey, or offer space for negotiation of a new preferential agreement that does not follow any of the existing models.

Most of the literature was published before the Brexit referendum as its purpose was to conduct a scientific evaluation of impacts of Brexit in case of “Leave” vote—trying to provide British citizens with a robust analysis for them to make a well-informed decision. Some of the literature discussed was published after the June 2016 referendum, yet a lot of new inputs on the political field became available since. The UK Prime Minister Theresa May made it clear in her official statements that “Brexit means Brexit” and the current situation in March 2017 suggests that the option of remaining part of the

EEA would go against the wishes of the British population. Moreover, she stated that the UK will not aim to follow examples of some existing countries in their trade agreement with the EU (BBC News, 2017a). As for the position of the EU, it is believed that it will take a position of a tough negotiator to prevent other member states to follow the same path of the UK and weakening the EU.

To analyse likely scenarios and their impacts on MA-CCG partnership, we will follow the advice of Courtney et al. from the article *Strategy Under Uncertainty*:

"All strategy making begins with some form of situation analysis—that is, a picture of what the world will look like today and what is likely to happen in the future." (1997, p.8)

Based on the official statement of UK's position as of March 2017, for the further analysis in this paper, we exclude the options stated in literature such as Norway or Switzerland. Taken into consideration Theresa May's letter invoking Article 50 (GOV.UK, 2017) and the EU draft guidelines following this notification[4], we define three scenarios that are believed to be the most likely to take place. As Cormack Consultancy Group is based in Scotland and the future of the Scotland is uncertain—an official statement of the First Minister of Scotland promises a second independence referendum in Scotland, thus contributing for division of "Hard" Brexit scenario in the following two scenarios. Scenario A defined as "Hard Brexit and Scotland leaves the UK", Scenario B: "Hard Brexit and Scotland remains in the UK". In the analysis, we include a scenario for a new bilateral agreement that follows the idea of a desired "deep and special partnership" between the UK and the EU (GOV.UK, 2017). Such an agreement can be inspired by some traits of some existing trade agreements between the EU and a third country such as Canada, Ukraine, or Turkey—this option is Scenario C: "UK-EU Bilateral preferential agreement".

Scenario A: "Hard" Brexit, Scotland leaves the UK

[4] http://g8fip1kplyr33r3krz5b97d1.wpengine.netdna-cdn.com/wp-content/uploads/2017/03/FullText.pdf

The term “Hard” Brexit describes a scenario in which the UK loses access to the European Single Market which is defined by the four fundamental freedoms; freedom of movement of capital, people, goods, and services. It was pointed out by the EU representatives that these freedoms are indivisible and it is not possible to have access to the Single Market without complying with the four freedoms. Both the UK in the letter triggering the Article 50 (GOV.UK, 2017) and the Council of the EU[5] acknowledge that “cherry picking” is not an option.

For further analysis, it is assumed that the term “Hard” Brexit refers to a trade relationship between the UK and the EU once that the negotiations are concluded, the UK having a status of a WTO member and being subject to most favoured nations (MFN) tariff and non-tariff barriers when trading with the rest of the EU. This option is in line with UK’s official position as of March 2017, in case that no agreement related to trade relations is made between the EU and the UK, WTO membership should be the default option (GOV.UK, 2017). The UK under this scenario does not have access to the Single Market, does not need to comply with freedom of movement of people (one of the main arguments of the pro-Brexit movement), and does not benefit from free trade of goods and services with the EU, although all goods exported to the EU must meet EU product standards and regulations. Among the advantages for the UK listed by Dhingra and Sampson (2016) (See Figure 1 - Options for the UK - EU post-Brexit trade agreement) is the increased sovereignty of the UK that allows it to negotiate trade deals with third parties independently from the EU, the UK has no obligation to contribute to the EU budget, and has the freedom to set its own economic policies and various regulations.

A broadly discussed topic for the past few years is the integrity of the UK and repetitive call for independence of Scotland from the rest of the UK. In September 2014, a Scotland-wide referendum on the Scottish independence from the UK took place, with a result of 55% of Scottish population being against the independence. Some believe that certain issues that would appear if Scots voted “Yes” in the independence vote such as what currency should be adopted, what would be Scotland’s position within the EU, or withdrawal of public expenditure from the UK, would have significantly damaging impacts on Scotland (Begg, 2016).

[5] http://g8fip1kplyr33r3krz5b97d1.wpengine.netdna-cdn.com/wp-content/uploads/2017/03/FullText.pdf

Although the first Scottish referendum resulted in remaining in the UK, the nationalist party that promoted this independence vote won a majority in the latest general Scottish election. It is generally known that Scotland manifests more pro-EU than pro-England inclination that was shown also during the Brexit referendum during which 62% of Scots voted "Remain" while only 38% voted "Leave" (See Figure 3). Moreover, not even in one electoral district in Scotland would there be a majority of "Leave" votes. Right after the results of the United Kingdom European Union membership referendum were published, the Scottish First Minister made clear that Scots have a distinctive and different view on the EU membership than the rest of the UK, particularly England and Wales (BBC News, 2016a).

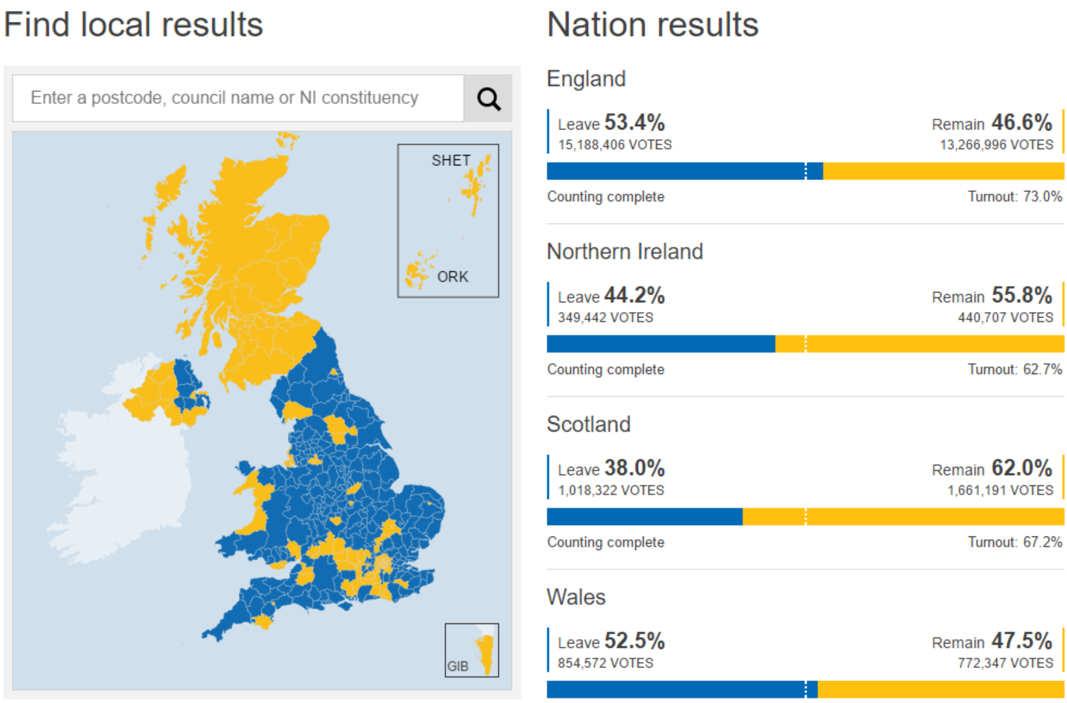

Figure 3 - Brexit referendum results per country **Source: BBC**

Smith (2016) looks into the demography of Scots who voted both in the Scottish independence referendum and in the Brexit referendum and tries to find a pattern by groups in order to investigate possible outcome of a likely second independence referendum. The trend is summarized in Table 2. Smith (2016) points out that the results according to age structure are consistent but those of social status groups seem to be rather inconsistent. It is questionable whether the direction of the Brexit negotiations and (lack of) representation of Scottish views in this negotiation process will manage to reverse the

55-45 result of the first Scottish referendum. Charles Cormack observes a strong pro-EU spirit in Scotland and believes that a second independence referendum is much more likely to be successful this time, yet predicts that another referendum would add to the uncertainty and would have negative impacts on business.

	2014 Scottish independence referendum: “Should Scotland be an independent country”?	2016 Brexit referendum: “Should the United Kingdom remain a member of the European Union or leave the European Union?”
Elderly	NO	Leave
Young	YES	Remain
Low income	YES	Leave
High income	NO	Remain

Table 2 - Summary of voting trend of Scots

Source: Author’s own conception based on the information in Smith (2016)

It is interesting to recall what were the impacts on businesses before the Scottish independence referendum. Charles Cormack claims that the uncertainty about the vote and the possibility of Scottish independence from the UK led to a slowdown of investment in Scotland. With on-going Brexit negotiations, the possible second Scottish independence referendum might result into more damage for businesses in Scotland. Charles Cormack observes that nine months after the Brexit referendum, capital market are suffering and many firms are putting investment decisions on hold.

In case that a second Scottish independence referendum takes place before the Brexit negotiations are concluded, as Nicola Sturgeon plans, and Scots vote for the independence from the UK, it would lead to more years of uncertainty and economic instability. First of all, in order to get independence from the UK, Scotland would likely have to go through a long process of leaving the EU as part of the UK and losing of EU membership, leaving the UK including the British pound and face withdrawal from the UK public expenditure. Only after the exit from the rest of the UK would Scotland be able to reapply for the EU membership. This process includes several stages; the first stage between the 2nd Scottish independence referendum and the actual Brexit (estimated to be between Autumn 2018 and Spring 2019), the second stage of reapplication of Scotland to become a member of the EU, and last stage of renewed membership of the EU. Under this scenario, we can expect that this process could take several years during which local economy and businesses are likely to be severely harmed.

If Scots vote to leave the UK and aim to re-enter the EU, they choose to distant themselves from one big and strong neighbour economy that is the rest of the UK, and try to reconnect with a large union. It can be expected that the political and economic relations between Scotland and the rest of the UK would cool down, presumably represented by the necessary physical border between the two independent countries. In this case, once that Scotland would re-enter the EU, the trade agreement applied would be the trade agreement negotiated during the Brexit negotiations between the UK and the EU. In this scenario, it is presumed to be a relation of two WTO members with MFN tariff applied which would definitely lead to worse trading conditions between Scotland and the rest of the UK. Nonetheless, Scotland would go back to enjoying access to the Single Market, including all four fundamental freedoms of the EU, and possibly refocus partially trade from the UK to Ireland and continental Europe.

Scenario B: "Hard" Brexit, Scotland remains in the UK

Under scenario B, the Brexit negotiations between the UK and the EU result into the UK leaving the Single Market and giving up the four freedoms; freedom of movement of people, goods, services, and capital. It is assumed that under this scenario the trade relation between the two parties follows the rules of WTO and the MFN tariff is applied, yet the UK needs to abide with EU regulations and standards on exported goods towards the EU market. The trade agreement between the UK and the EU is corresponding to the one already described above in scenario A.

Scenario B assumes that a second independence referendum of Scotland takes place and the result is that Scots decide to remain part of the UK. As discussed in previous section 4.2.1., it is likely that the referendum takes place before the Brexit negotiations are concluded, yet the results of this referendum is uncertain and might depend on several factors.

First of all, 62% of Scots voted in favour of the UK remaining in the EU. Smith (2016) argues that the 38% of Scottish voters that voted "Leave" might be seen as a relatively high number, especially given that no party of the Scottish parliament was actively promoting the Leave campaign, although the UK-wide Brexit campaign reached Scots as well. It is also questionable if enough of the 55% of voters that chose "No" in the Scottish independence referendum would change their position and reconsider voting for independence in a second referendum.

Assuming that the reason of the majority of "NO" votes during the first referendum was mainly related to the issues of economic instability and uncertainty about the currency to be adopted, public expenditures, and the EU membership, it is likely that most of these issues will remain but one will become clearer—the future of the EU membership of potentially independent Scotland. The outcome of the second Scottish independence referendum is likely to be affected by the status of Brexit negotiations which by the assumed time of the referendum will be more advanced and the future deal between the UK and the EU will be more concrete. Furthermore, the extend of representation of the Scottish view in the Brexit negotiations might be of high importance, making Scots incline more towards either of the Unions. Theresa May claims that the UK government will represent specific interests of all regions of the UK and expects that sovereignty of each regional government within the UK should increase (GOV.UK, 2017). Another factor that might be decisive is the political argument and campaign for Scottish independence, especially the robustness of a concrete strategical plan and next steps in case the vote is in favour of independent Scotland.

Smith (2016) believes that although Scotland is more pro-EU than England, when it comes to the time of choosing which union—the EU or the UK—to belong to in a possible second Scottish referendum, Scots would incline to remain part of the UK rather than the EU for a number of reasons, including a physical border barrier between Scotland and England.

Under scenario B, the UK remains entire and the trade barriers and overall economic impact that are described by the literature are common for all countries within the UK.

Scenario C: Bilateral preferential agreement

In contrast to above described scenarios A and B that are very specific and are based on a trade relation option of WTO member that is widely present in the literature, Scenario C is less concrete and does not follow specifically any of the options suggested by the literature. However, it offers space for particular negotiations between the EU and the UK as a member state that decided to leave the union, which is a first case of its kind with no specific model to follow.

The literature treating Brexit and options for the new UK-EU trade relation agrees not only on the extreme cases which are the “Norway” model and the WTO model, but also states that there are other options available. The range of possibilities is subject to a trade-off between political sovereignty and benefits of economic integration—the Norway model has benefits of economic integration such as access to the Single Market, but also a substantially low political sovereignty and need to implement Single Market policies, and an obligation to contribute to the EU budget. It seems that the Brexit that the UK Prime Minister aims to get, values more political sovereignty than benefits of economic integration. The position of the UK relative to control of migration goes against the freedom of movement of people within the Single Market and therefore the “soft” Brexit seems to be out of question. Scenario C presents a post-Brexit trade agreement that offers the UK significant political sovereignty, yet provides with a preferential trade conditions with the rest of the EU comparing to the WTO member position.

Some elements of the “Canada” model can be present in this agreement such as a free trade agreement with restriction on certain types of goods, decreasing or avoiding the tariff barrier on most important trade sectors between the UK and the EU such as automotive industry (Begg, 2016). The recently signed Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada should facilitate the goods, services and capital flows between the two parties (European Commission, 2017). Nonetheless, the Canada model does not offer any preferential agreement on exports of services which is a big part of the UK exports towards the EU—financial and business services. Theresa May proposes a Free Trade Agreement between the UK and the EU that would extend to financial services and network industries (GOV.UK, 2017) and it seems that the EU is ready to negotiate such an ambitious agreement[6]. Furthermore, both parties agree that they aim to have a close partnership after the UK leaves the EU, that should be extended further than on trade arrangement.

Other preferential trade agreements, namely between the EU and its geographically close countries such as Ukraine or Turkey aim to have a deeper cooperation by lowering tariffs but also by applying some EU policies and standards that can be seen as a preparatory phase for a possible future membership of the EU. This is not the case of the UK, that has been a member of the EU for decades and such structural investments in better functioning and more integrated markets might be of higher importance to the EU. Nonetheless, Duff (2017) argues that based on European Council's guidelines on Brexit negotiation and in particular in which areas the cooperation should remain tight - such as security, terrorism, crime, and defence -, the recent agreement between the EU and Ukraine can work as a template for the UK-EU agreement negotiations. In case of successful negotiations, a stable EU and a sovereign UK that manage to make a bilateral agreement can send a signal to the rest of the world that these mature economies are able to overpass difficulties and remain strong.

This scenario, on the one hand, is not very concrete, it relies on a number of assumptions and leaves a lot of details unanswered. On the other hand, it provides with a big picture of a trade agreement that offers somehow preferential relation over the WTO member status that can be interesting for some sectors in particular and will be useful in the following sections of the report. The question of Scotland is not answered, neither assumed in this scenario. For application in business area, a mix of scenarios might be possible by taking certain arguments and predictions that become apparent due to current affairs and on-going negotiations between the UK and the EU.

3.3. Implications for the Market Access – Cormack Consultancy Group partnership

[6] http://g8fip1kplyr33r3krz5b97d1.wpengine.netdna-cdn.com/wp-content/uploads/2017/03/FullText.pdf

In the section 4.3. of the report, we analyse implications of each of the previously described scenarios on the partnership between Market Access and Cormack Consultancy Group. In contrast to the previous section 4.2. that used a macroeconomic perspective, this section relates the topic directly to the business level and more precisely to the case study of Market Access.

Charles Cormack, the founder and chairman of Cormack Consultancy Group, was willing to contribute with his thoughts and business strategy to this report, thus this section has strong inputs of Market Access' partner and is not based purely on assumptions (See Appendix A). Mr Cormack shared CCG's strategy in case there is a "Hard" Brexit which he defines as loss of access to the Single Market. Under all three scenarios that are examined in this report, this would be the case and CCG would aim to relocate their head office from Scotland to Ireland, while keeping the Scottish office operating.

This planned strategic move is of great importance for the evaluation of the consequences of Brexit for Markets Access, as it eliminates a significant part of the uncertainty. We can consider that in terms of limits to trade of services between these two parties there will be no change from the current situation of the two partners being listed as EU companies. Nonetheless, the functioning of MA – CCG partnership depends on local (whole UK, Scottish, or Irish) businesses interested in internationalization services which can vary substantially depending on the scenario of post-Brexit UK-EU relations.

Scenario A: "Hard" Brexit, Scotland leaves the UK

Scenario A seems to be the most straightforward when it comes to definition, yet the most complex in terms of steps and different stages that Scotland would go through. For this analysis, three distinct stages must be discussed. First is the period between the second Scottish referendum (with a result pro-independence) and the cessation of the UK's membership in the EU. Based on statements of Nicola Sturgeon and the maximum of two-year negotiation period of Brexit, we can assume that this stage would take place between autumn 2018 and March 2019. The second stage is the transitory period in which Scotland leaves the UK, becomes independent and reapplies to the EU. This stage can be lasting for several years following spring 2019. In the third stage, the situation stabilizes and Scotland becomes a member of the EU as an independent country. This path can take many years during which the political and economic instability would be very harmful for local businesses.

It can be expected that with changes of currency, public budget, legislation, and other institutional changes, private investment will be held back and the overall economic activity will slow down or decrease. As Charles Cormack points out that “even under the scenario of Scotland leaving the UK and staying in the EU, the uncertainty and politic instability is likely to bring more severe negative effects (at least in short term) than seen right after the Brexit vote”. Given the complexity of the process of Scotland leaving the UK and reapplying to the EU, the negative effects are more likely to be present not only in short term, but in medium term that can easily be five years, up to a decade from the Brexit referendum.

The fact that the UK is leaving the European also has specific impacts on the UK sector of international business consulting as most SMEs that are clients of firms as Cormack Consultancy Group or Market Access partially finance their internationalization project using regional or national funds that are often connected to European funds. The funds that aim to stimulate trade within the Single Market and to improve competitiveness and R&D are available to candidates from the EU member states which suggests that once that the UK leaves the EU, their access to such funds will be impossible. It is unclear whether the European funding programs will be sufficiently replaced and financed by the UK and by the Scottish government. As Ireland remains a member of the EU, the potential Irish clients of MA-CCG do have access to such forms of funding that are of major help for functioning of international business consultancies.

From the business point of view, it is possible that many firms that participate in trade outside of Scotland might consider opting for a similar strategy as Cormack Consultancy Group—relocate the head office to an EU country. Successful businesses might focus on targeting a stable or growing market and decide to internationalise. These kinds of strategies give business opportunity to consultants in international business such as CCG and MA.

Although there can appear certain opportunities mainly in short term, in medium and long term the dissolution of the UK can lead to colder relations between the rest of the UK and independent Scotland. Depending on the relations between Scotland and the rest of the UK following Brexit and the independence of Scotland, it is possible that the access to the rest of the UK's market will become more difficult. A Scottish CCG might not be able to reach and get clients from the whole UK which can be a big loss since England, the largest part of the UK with the highest economic activity, would not be in the same market anymore. The market covered by CCG might get limited to Scotland (and Ireland). Alternatively, in case that the relations between Scotland and the rest of the UK are good, and potentially the two markets become more closely connected than the rest of the UK with the EU as whole, it might be possible that the Scottish office can work as a "bridge" between the UK and the EU.

Scenario B: "Hard" Brexit, Scotland remains in the UK

In comparison to Scenario A, there are several differences when it comes to impacts on businesses in the UK. First of all, the period of uncertainty and political instability is expected to be much shorter and limited to the Brexit negotiations and the following transition period that is likely to take place in order to accommodate all changes related to the UK leaving the EU. As of the day of invoking the Article 50 to leave the EU, the UK Prime Minister promised to "seek to ensure continuity and certainty" (GOV.UK, 2017) which was followed by a reply from Donald Tusk, the president of the EU Council, that the EU will focus on minimizing uncertainty, mainly for EU citizens, member states, and businesses (European Council, 2017). This shared vision of both parties to reduce uncertainty as much as possible is most welcome by businesses. It is believed that the sooner the Brexit agreement is concluded, the better.

Nonetheless, with reduced economic integration that Brexit is to bring, the trade flows between the UK and the EU are expected to decrease in comparison to the pre-Brexit period. The loss of access to the Single Market that will be replaced with status of a WTO member, will result in higher trade barriers—tariff and non-tariff barriers, and the overall increased cost and decreased time efficiency of the UK-EU trade. Ghemawat (2001) suggests that being part of a common regional trading bloc and having a common polity are some of the attributes that make the trading distance between two countries smaller. As of Brexit, the UK-EU trading distance will be increasing. Nevertheless, other attributes presented by Ghemawat remain unchanged for the UK-EU relations and given mainly the economic and geographical size, geographical proximity, and the development of both economies, the trade, although reduced, will remain substantially important.

Once the uncertainty about the post-Brexit agreement is gone, it is expected that the UK organisations retrieve back their interest in the EU markets. As of the CCG-MA partnership, this would be good news given that Market Access considers that the internationalization projects targeted to the EU markets are its strength and also the markets with highest price competitiveness.

One of the biggest arguments that Brexit supporters manifested is that a sovereign UK that is not bound by EU foreign policy will have the freedom to negotiate its own trade agreements with third parties. On the one hand, leaving the EU will also lead to losing the privilege of being covered by all negotiated trade agreements by the EU. On the other hand, there exists the possibility that a new trade agreement can be negotiated with some key partners, such as the USA, that would allow better conditions than the current EU member. If this is the case, an increased interest in markets that become more easily accessible can occur, leaving space for MA-CCG to respond to this increasing demand.

Scenario C: Bilateral preferential agreement

The Scenario C pictures a situation in which the Brexit negotiations were successfully concluded and the impacts on trade relations are partly mitigated. Such a mutual agreement also implies not only preferential trade conditions but also continuing good political relationship that extends to other areas than simply to economic issues. It can be expected that from the three listed scenarios, the UK-EU relationship is the closest and deepest under this scenario.

Independently of the specificity of the preferential trade agreement, the overall economic impact for both the EU and the UK is to be less severe than either of the previously described scenarios. Depending on the actual form of the agreement and its reach and coverage of concrete sectors, we could make some conclusions on implications for specific businesses.

As of March 2017, most UK and EU businesses might be expecting that the post-Brexit relations get limited to the WTO membership and the rules connected to this status.

If this scenario is the one to happen, it can be considered by firms as a good case scenario which can lead to an increased optimism. A stronger connection with the rest of the EU than expected and clearer prospects of the future might result in higher willingness to invest, especially given that since the June 2016 referendum there has been evidence of investment holding decisions.

There might be a decline in interest in the EU markets comparing to the pre-Brexit referendum period, yet in comparison to the alternative scenario B, the decline should be more limited, thus the EU market in general is likely to stay attractive and one of the most popular destinations for UK exporters. For Market Access, this scenario seems to be the least harmful as the EU markets are its major strength and it can offer excellent services for a competitive price.

Depending on the conditions of the bilateral agreement negotiated between the UK and the EU, the UK may have a space for negotiating trade agreements with third parties that can offer preferential conditions over the current ones that are unique for all EU member states. This can be seen as an opportunity for some British organisations that might decide to pursue their internationalization strategy in a target market that newly offers fewer trade barriers.

3.4. Strategy recommendations to Market Access under each scenario

This section of the report offers guidelines for the strategy of Market Access related to its partner Cormack Consultancy Group. There is first a common short-term recommendation, for the time before the conclusion of Brexit negotiations, followed by medium to long-term specific recommendations for each of the above described and analysed scenarios A, B and C.

No matter what scenario is to materialize, a common short-term strategy is in order. As of March 2017—nice months following the Brexit vote, the depreciation of the British pound and the investment holding from the part of British firms can be considered to be the biggest obstacle, slowing down the sales process of MA-CCG services. First of all, the cost of services of Market Access has become much higher for British firms and organisations due to loss of competitiveness related to the GBP/EUR exchange rate.

Secondly, the overall optimism and willingness to invest in international expansion, and in particular in the EU markets, decreased dramatically for the UK firms.

At this moment, it might be worthwhile to focus on businesses and organisations that are seeking internationalization to Europe such as British universities that want to find partners in EU member states and firms aiming at relocating their headquarters in order to keep their access to the Single Market. These potential clients do not have a lot of space to postpone their decision as the 2-year long Brexit negotiation period commences in March 2017.

In addition to focusing on this type of clients that seek support in their internationalization now more than even, it might be useful to review the pricing structure. Given the decreased purchase power and willingness to invest (with the exception of the two concrete cases previously described), certain price adjustments or decrease in margins for the two partners might be necessary in order to achieve the desired turnover.

Scenario A: "Hard" Brexit, Scotland leaves the UK – be flexible and ready to adapt

The scenario of Hard Brexit and independent Scotland brings several additional years of uncertainty and instability for Scottish businesses. Similarly to observed behaviour of British firms months after the Brexit referendum, we are likely to see various strategies being put in place by local firms and organisations. Charles Cormack believes that the second Scottish independence vote, if successful, will bring more severe impacts on the economy that what could have been observed as a result of the Brexit referendum.

Under these circumstances, it is important to stay up-to-date with the development and investigate and closely observe different behaviour and planned strategies of Scottish businesses. It might be useful to find a pattern or a trend, similarly to the case of British universities after the Brexit vote, and establish an adaptive strategy of acting upon the patterns and offering these clients the services of MA-CCG.

As both Cormack Consultancy Group and Market Access are fairly small companies, they have the advantage of being able to shift focus from one group of target clients to another, and make quick changes and adaptations of the services offered. This trait should be taken advantage of, especially when the behaviour or the extent of Scottish firms' dedication to invest in their expansion or relocation is difficult to predict. Flexibility and adaptability are key in this scenario.

An option to ensure more certain turnover and sales might be for CCG to allocate more resources to approach the Irish market and benefit from the stable economic environment, the high purchase power and access of the local businesses to the European Single Market and also to European funds. Moreover, Market Access would benefit not only from the above described characteristics, but also from sharing the same currency and not being subject to currency depreciations as in case of the UK, and at this moment Scotland.

Scenario B: "Hard" Brexit, Scotland remains in the UK – refocus on other markets

In case of "Hard" Brexit scenario in which the political pressure to separate Scotland (and to some extent also Northern Ireland) from the rest of the UK is absorbed and calmed down, the rules of WTO member apply to the UK as a whole, including Scotland. The trade relationship with the EU is straightforward but more distant in comparison to pre-Brexit period.

The original premise of the partnership between Cormack Consultancy Group and Market Access was that the clients found by CCG would be using actively both the EU markets that Market Access covers and also the outside of EU. With decreased interest in the EU markets, the outside EU markets can become more attractive, leading to shifts of target towards markets such as the United States of America or Canada. Market Access has consultants in these markets, yet it is much less price competitive than in the EU markets. Moreover, in the USA, Cormack Consultancy Group has their own office and a Market Access USA consultant is rarely called for from the side of CCG.

It is important to observe negotiations of the UK with third parties to see if they manage to negotiate a preferential agreement with a popular destination for British firms. Once that such an agreement is reached, it offers space for promoting it, in case a competent and price competitive consultant is available for collaboration in the market.

This suggestion is applicable only in medium to long term—when such new opportunity arises.

The question of high potential of the Irish market is applicable also in this scenario, and so is the overall suggestions for flexibility and adaptability as the best strategy for this situation that encompasses complex changes. It is undeniable that the EU markets are the biggest strength of Market Access and this scenario would reduce the desirability of these markets. Nonetheless, it is too early to predict how severe will be the impact of Brexit on UK firms and organisations and their interest in EU markets. It is possible that the decline will not be too dramatic and fewer UK clients would not affect too much the partnership between CCG and Market Access.

In case the impacts on the UK are too severe and Market Access does not have much to offer to the UK potential clients in terms of competitive price or desired target market, it would be advisable for Market Access to refocus their strengths and resources to respond to the needs of other more potential markets. Firstly, the opportunities brought up by the Baltics partner Civitta are numerous, and secondly, Market Access is pursuing their own internationalization strategy by starting their own office in a new market.

Scenario C: Bilateral preferential agreement – wait and see, reinforce partnership

Under scenario C it is to be expected lower interest from UK firms in the EU market in comparison to pre-Brexit period, yet higher than in any of the previous scenarios that rely on WTO membership status. Also, certain sectors might have privileged access to the EU market which can be an opportunity for MA-CCG to approach these sectors and offer their joint services both to the EU target markets that are price competitive, and also to other world markets.

The overall recommendation for this scenario is to monitor and observe the evolution of the Brexit negotiations. In medium and long term, keep up-to-date with the negotiations of preferential trade agreements between the UK and third countries that could facilitate access to the given markets. In the analysis from Market Access perspective, it appears that interdependency of businesses is a key determinant. It is crucial to observe the behaviour and strategies of potential clients and although Market Access offers a range of predefined services (See Chapter 1 of this report) based on distinct methodologies, each project is adapted to the requirements of the client and to a large extent is flexible. Moreover, finding clients in the UK market for Market Access is a full responsibility of Cormack Consultancy Group, their knowledge of the market and their own strategy. As it is Cormack Consultancy Group that has to stay more reactive and adapt their offer according to demand, good communication and willingness to cooperate and make changes from the side of Market Access is essential. To some extent, the "wait-and-see" strategy seems to be the best choice for Market Access, even though some suggestions regarding the strategy of CCG can come from Market Access.

Concluding remarks to strategy recommendations

Table 3 offers an overview of the description, analysis, and strategy recommendation for all three scenarios discussed. It is important to note that only the main topics and most prominent characteristics of each scenario are presented in the table. In reality, there is a short term strategy recommendation for the time until the Brexit negotiations are concluded that is common for all three scenarios that can possibly follow. For short term, it is suggested that Market Access focuses on potential clients from the UK that are from education sector, and on firms that need support with establishing their office in the EU market. A re-evaluation of fees from both sides might be necessary to remain competitive. Even for the medium term and long term, a general strategy guideline suggested for Market Access is to observe the negotiations, the behaviour of firms in the market, and be ready to adapt its services according to the current demand.

The partnership between Market Access and Cormack Consultancy is rather recent, dating only to the year 2015. The joint services that CCG offers in the UK market are in the process of being developed and adapted, and they are still far from being fully established. Both firms are young, growing and flexible which is an important advantage given the type of clients they get and their requirements.

It is the Scottish partner CCG that is present in the market and who is the one to make bigger adjustments and evaluate the needs of the local organisations and businesses. It can be considered as a good sign that CCG adapted their services right after the Brexit vote and managed to spot a pattern of behaviour, and even more, that Charles Cormack was willing to share their internal strategy and plans, and contribute to the development of this report.

The structured guidelines are rather general but given the nature of the partnership, and the interdependency of firms in the UK market and MA-CCG’s offer of services, they remain useful and valid for internal use.

	Description—main characteristics	Impacts on the Market Access-CCG partnership	Main strategy recommendations
Scenario A	UK-EU trade relations: WTO member; Long lasting impacts on Scottish economy and hurt businesses; Distance between rest of the UK and Scotland	Several years of instability with harmful impact on businesses; various strategies of Scottish firms to be expected	Try to find pattern of behaviour of Scottish firms and organisations; be ready to respond with adapted services according to these patterns
Scenario B	UK-EU trade relations: WTO member; kept integrity of the UK—lower instability for Scotland	Decline of interest in EU markets; higher trade costs; partial loss of strong advantage of Market Access in EU markets	If severe loss of interest in EU markets from the UK and high price sensitivity, refocus resources on other markets
Scenario C	UK-EU trade relations: preferential trade agreement—better conditions in some areas than WTO member (similar to Canada or Ukraine model)	Slight decline of interest in EU markets; possibility of some sectors having preferential access to EU markets; potential optimism in investment (good scenario)	Observe status of negotiations, prepare for most UK firms using Market Access services to target the EU markets.

Table 3 - Overview of analysis of scenarios

Source: Author’s own conception

Conclusions

This report is a product of the 6-month curricular internship at Market Access, a Portuguese-based international business consultancy. The study focuses on the strategic partnership with Scottish Cormack Consultancy Group that Market Access started recently, in 2015. The unexpected result of the Brexit referendum in which 52% voted to leave the EU brought a lot of uncertainty to many UK and EU businesses, including Market Access. In this report, we briefly recall the process of European integration, and clarify the discussion around Brexit and its expected impacts on the UK economy, EU, businesses, and potentially on Scotland.

To make the strategy recommendations for Market Access, a selection of possible scenarios related to post-Brexit UK-EU trade relation is presented based on the literature and on official statements of Theresa May, Nicola Sturgeon, and the European Council draft guidelines as a reply to the letter triggering the Article 50. It is clear that the UK will seek to keep a "deep and special partnership after the UK leaves the EU, including economic and security cooperation" (GOV.UK, 2017), yet both the UK and the EU acknowledge that "cherry picking"—intension to get benefits of EU membership without compromising on EU rules—is out of question. Three scenarios are listed and described; Scenario A: "Hard" Brexit, Scotland leaves the UK, Scenario B: "Hard" Brexit, Scotland remains in the UK, and Scenario C: Bilateral preferential agreement.

In case of Scenario A with Scotland leaving the UK and becoming an independent country, it is expected that economic and political instability will last for many years which will have a severely negative impact on local firms. As of MA-CCG partnership, it is important to observe a trend in behaviour of Scottish firms that might arise and try to adapt their services to meet the demand in the market. In Scenario B, Scotland remains in the UK and there is a hard Brexit. MA-CCG should expect to have a decline of interest in the EU markets due to higher trading costs. There might be an increased interest in outside of EU markets that could be taken advantage of, yet low price competitiveness of Market Access in outside of EU markets might be a limitation. In Scenario C, a bilateral preferential agreement between the UK and the EU is negotiated which given the circumstances and wishes of the British population can be considered as the "deep and special partnership" that Theresa May aims for. The impacts on businesses will be much less severe than in previous scenarios and possibly recent investment holding decisions observed in the UK market can be reverted.

A general short term strategy should be to respond to the demand that appeared in the UK which came from the UK universities and research centres that following the Brexit vote decided to find partners in the EU member states. Another profile of clients are firms that need support in relocating their head office to an EU member state. An adjustment of price structure might be necessary given the depreciation of British pound related to Euro.

For medium and long term strategy, given the nature of the two firms and their partnership, flexibility and adaptability is of highest importance, in addition to good communication between the parties. Charles Cormack, the founder of CCG, disclosed their plans for case of the UK losing access to the Single Market which is a great contribution not only for this report but for reducing uncertainty for Market Access. CCG proved that they are adaptable in a situation when they managed to turn the threat of Brexit—a threat for the future trade between the UK and the EU—into an opportunity by offering new service of support at relocation of offices in an EU member state.

The best overall strategy for Market Access is to "wait-and-see", observe the negotiations and get ready for a slight decrease of interest in the EU markets. A lot of adaptability and flexibility will be needed from the side of the Scottish partner to try to find clients that MA-CCG can help. In the meantime, it might be worthwhile to focus more strengths on other markets, in particular the Baltic markets, and to have a more pro-active expansionist strategy for new markets.

Limitations

The choice of scenarios is based on the literature, but the selection is strongly affected by official statements of Theresa May and the European Council draft guidelines as a reply to the letter triggering Article 50. It is possible that a different and at the moment unpredictable or unlikely scenario might take place that is distinct from the ones presented in this report. As there is no concrete historical example of an EU member state leaving the EU, there is no model to follow. In reality, Brexit might take the shape of a scenario mentioned in the literature such as the Switzerland model or even a more innovative scenario such as the Continental partnership.

It seems that Theresa May, the UK Prime Minister, is determined to take the UK through the process of Brexit, yet the opposition such as Labour Party, the Scottish National Party, and several members of the UK parliament threaten to stop Brexit. In April, 2017, Theresa May announced snap election for June 2017, with the motivation of calming down the unrests in the parliament and reducing the power of the opposition to Brexit (BBC News, 2017c). Although the polls suggest a strong lead of the Conservative party of Theresa May, the actual results might be of a surprise and might change the balance in the UK Parliament and redirect Brexit.

A more concrete methodology could be followed when tackling this problem such as option valuation model or game theory to make a more scientific evaluation of what Courtney et al. (1997) call Level 2 situations. These approaches would require strictly defined scenarios with concrete outcomes and assigned probabilities that given the nature of the Brexit situation and the degree of involvement of Market Access in the UK market would add only little value to the analysis. Moreover, such a structured model that would make assumptions on large number of variables and outcomes might be more misleading than the qualitative analysis that this report offers.

There is a possibility that Brexit might take a different direction than one of the three scenarios analysed in this report. Still in that case, the analysis developed in this study might be of help and the report can work as a basis or inspiration for future research.

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Appendices

Appendix A. Interview, by the author, with Mr. Charles Cormack, the founder and board member of Cormack Consultancy Group

Interview from 24.03.2017

Questions:

1) Have the target markets of British potential clients (leads) changed since the Brexit vote?

Answer: Yes, very clearly, at the moment UK companies are less interested in the EU and more interested in other markets. This is simply down to a lack of clarity on what trading relationships will look like in Europe rather than a turning away from the EU. Also confidence is much lower, especially amongst SME's. Universities are an exception to this trend; they are focusing on Europe. Until June 23rd, 2016, UK universities considered the EU home market, now they need to develop and integrate strategies for Europe.

2) The refocus on different markets and slight turn away (at least in short term) from the EU is consistent with literature predictions. What are the new target markets that you observe to be more popular?

Answer: Definitely we have observed an increased interest in the USA. Also, there is a higher demand for South America, mainly Brazil. We have noticed some changes in the Asian market as well, but not necessarily related to the Brexit vote.

3) Does the transition of CCG Baltics to CIVITTA have something to do with Brexit?

Answer: Yes, it does. We have created that partnership as part of our strategy of shifting focus from the Baltic markets to a more global outlook, and also to give us access to a wider range of services for our clients.

4) Is CCG thinking about independence of Scotland from the UK? And if yes, what would be their strategy in case Scotland is no longer part of the UK?

Answer: It is too soon to say, we are of course thinking about another independence vote, and I think it is much more likely to be successful this time as Scotland is much more pro EU than England. However, another referendum will add to the uncertainty and will have a negative effect on business. CCG may look at relocating our head office to Ireland.

5) About the Scotland independence vote, you said it’s more likely it would be pro-EU. What is the advantage of Ireland over Scotland that is not in the UK and is part of the EU?

Answer: In case of “Hard” Brexit, and therefore loss of access to the Single Market, CCG UK will look into moving their head office to Ireland, keeping the current office in Scotland. Even under the scenario of Scotland leaving the UK and staying in the EU, the uncertainty and politic instability is likely to bring more severe negative effects (at least in short term) than seen right after the Brexit vote.

6) Everybody talks about uncertainty as a source of damage on real economy. Do you have some insights from Scotland or the UK as a whole?

Answer: We have seen a strong slowdown of investment when the first Scottish referendum was about to take place. It was the uncertainty about the vote and possibility of Scottish independence from the UK that led to such a decline in investment. Nine months after the Brexit referendum, the capital market in Scotland is suffering and a lot of firms make investment holding decision. With on-going Brexit negotiations, the second Scottish referendum might result into more damage for businesses in Scotland.

7) The idea of moving the head office to Ireland would be applicable in case that the UK loses access to the EU Single Market, isn't it? Would it be only to remain listed as an EU company or also to start exploring the Irish market and finding Irish clients interested in export services?

Answer: Yes, but also because we would want to be involved in some work as an EU based company. We already have some clients in Ireland, so we may expand that but it would not be the main reason.